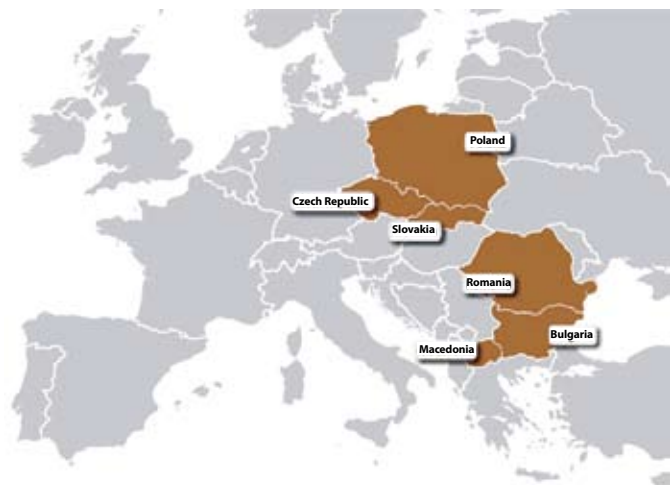


REGIONAL RISK WATCH

CENTRAL-EASTERN EUROPE

Issue 8/2008

16th January, 2008



Tags:

Sectors:

Finance and banking
Automotive industry
Trade
Energy (electricity, gas, nuclear power)
Infrastructure

Companies mentioned:

EVN-Macedonia
Volkswagen
Peugeot-Citroen
KIA Motors

Key findings in this issue:

- In Bulgaria, the pressure on households and companies paying interest rates will continue throughout 2009. Inflation will likely fall below the interest rates, which will discourage consumers from taking credits. This trend may additionally limit the growth of consumer credits, and respectively the potential increase in bad credits.
- The Czech government cannot avoid facing the effects of 2009's slower economy caused by the global downturn which is sharper than it was expected. The GDP-growth seems slower (even the recession cannot be excluded) and the budget deficit higher than it was forecasted when making the budget. According to the latest data released, the industrial production in November fell by 17.4% y-o-y, which is the highest in the region and exceeds drastically the level of the expected 9%. Prague can be forced to make a general review on the budget.
- Although the Macedonian government's anti-crisis plan contains some positive measures like the temporary tax exemption for non-redistributed corporate profits, much of the increased expenditure in 2009 will be concentrated on social transfers and salaries. S&P have put negative outlook on currency ratings, and the loosening of the fiscal stance will probably lead to forthcoming rating downgrades.
- The World Bank approved a EUR 975 million loan for Poland, "in support of the government's fiscal reform and consolidation plans and broader economic reform program". Even if the World Bank project is not directly related to the economic crisis, during the period of deepening problems, the loan may ease deteriorating real economic conditions.
- As in the current situation rebuilding the international confidence in Romania is the primary political goal (because of the drastic fall of the RON and the assumptions on a possible IMF-loan for Romania), the new government is not likely to fulfill the campaign promises (e.g. wage hike in the public sector), or they should be counterbalanced with drastic austerity measures. The Boc government has already announced some austerity measures (e.g. limiting maternity subsidies and the number of executives in the public sector).
- The decision to re-launch one of the V1 reactor blocks in Slovakia at the Jaslovské Bohunice nuclear power plant has been postponed. It is an important step for the government as the announcement of the re-launch has made a great diplomatic turmoil around the country, but if the gas-debate drags on, restarting the nuclear reactor cannot be excluded.

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Factsheets

Political factsheet

Country	Political System	Head of State	Legislature	Head of Government	Governing parties and their orientation	Opposition
Bulgaria	parliamentary democracy	semi-weak president direct election Georgi Parvanov (2002-)	unicameral parliament National Assembly (240 seats)	Sergei Stanishev (Bulgarian Socialist Party, since 2005)	Majority government (150/240) Coalition for Bulgaria (Bulgarian Socialist Party in alliance with seven minor partners, 81 seats) National Movement for Surge and Stability (former National Movement Simeon II, liberal, 35 seats) Movement for Rights and Freedoms (ethnic Turkish centrist, 34 seats)	Bulgarian New Democracy (former members of NMSS, 16 seats) Democrats for a Strong Bulgaria (conservative, 16 seats) Bulgarian People's Union (center-right coalition, 11 seats) United Democratic Forces (Christian Democracy, 16 seats) Attack Coalition (radical right coalition, 11 seats) Independent – 20 seats
Czech Republic	parliamentary democracy	Weak president Elected by the two houses together Vaclav Klaus (2003-)	bicameral parliament Senate (81 seats) Chamber of Deputies (200 seats)	Mirek Topolánek (Democratic Party, since 2007)	Minority government (96/200) Civic Democratic Party (neoliberal, 79 seats) Christian Democratic Union (Christian democratic, 13 seats) Green Party (green, 4 seats)	Czech Social Democratic Party (social democratic, 70 seats) Communist Party of Bohemia and Moravia (Far-left, 26 seats) Independent – 8 seats
Macedonia (FYROM)	parliamentary democracy	direct election Branko Crvenkovski (Social Democratic Union of Macedonia, since 2004)	unicameral parliament Assembly (120 seats)	Nikola Gruevski (Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian National Unity, since 2006)	Majority government (82/120) Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (center-right, 63 seats) Democratic Union for Integration (Albanian ethnic, 18 seats) Party for the European Future (1 seat)	Social Democratic Alliance of Macedonia (social democratic, 27 seats) Albanian Democratic Party (ethnic, 8 seats) Independent (ex- Albanian Democratic Party members, 3 seats)
Poland	parliamentary democracy	semi-weak president with some strong mandate in foreign policy and nomination direct election Lech Kaczynski (Law and Justice, 2005-)	bicameral parliament Senate (100 seats) Sejm (460 seats)	Donald Tusk (Civic Platform, since 2007)	Majority government (240/460) Civic Platform (Christian democratic, liberal conservative, 209 seats) Polish People's Party (agrarian, Christian democratic, 31 seats)	Democratic Left Alliance (social democratic, 42 seats) Law and Justice (Conservative, Euro-sceptic, 157 seats) Democratic Party - demokraci.pl (social liberal, 3 seats) Social Democracy of Poland (social democratic, 8 seats) independent (5 seats) Poland XXI (centre-right, 5 seats)

Country	Political System	Head of State	Legislature	Head of Government	Governing parties and their orientation	Opposition
Romania	parliamentary democracy	semi-presidential system direct election Traian Basescu (independent, 2004-)	Bicameral Parliament Senate (137 seats) Chamber of Deputies (332 seats)	Emil Boc (Liberal Democratic Party, since 2008)	Majority government (229/332) Liberal Democratic Party (center-right, 115 seats) Social Democratic Party + Conservative Party (social democrat, centre-left 114 seats)	National Liberal Party (liberal, center-right, 65 seats) Democratic Union of Hungarians in Romania (centrist, ethnic, 22 seats) Parliamentary group of national minorities (18 seats)
Slovakia	parliamentary democracy	Weak president Direct election Ivan Gašparovič (Movement for Democracy, since 2004)	unicameral Parliament National Council (150 seats)	Robert Fico (Direction – Social Democracy, since 2006)	Majority government (84/150) Direction – Social Democracy (social democratic, populist, 50 seats) Slovak National Party (nationalist, 19 seats) People's Party – Movement for a Democratic Slovakia (HZDS, 15 seats)	Slovak Democratic and Christian Union – Democratic Party (Christian democratic, 28 seats) Party of the Hungarian Coalition (ethnic, 20 seats) Christian Democratic Movement (Christian democratic, 9 seats) Independent (former members of different parties, 9 seats)

Economic factsheet

Country	Population	Budget balance 2007	Inflation 2007 (year-on-year)	Economic Growth (as % of GDP) 2007	Interest rate	Unemployment 2007	Public debt (% of GDP) 2007
Bulgaria	7,640,238	+3.5%	7.6%	6.2%	5.17%	6.9%	21.8%
Czech Republic	10,403,911	-1.58%	2.8%	6.6%	2.25%	6.6%	28.7%
Macedonia	2,061,315	0.8%	2.3%	5.2%	6.5%	34.8%	30.8%
Poland	38,125,696	-2%	2.5%	6.5%	5.00%	11.4%	43.1%
Romania	22,246,862	-1.4%	4.8%	6%	10.25%	6.4%	18.2%
Slovakia	5,400,998	-1.6 %	2.8%	10.4%	2.5%	8%	29.4%

Introduction

Our Regional Risk Watch aggregates and analyses the news concerning the Central-Eastern-European Region, which significantly influences the political risks of the given countries, due to their favourable or unfavourable effects on

- investor environment,
- governmental and political stability in general, and
- welfare reform.

We make forecasts on prospective political tendencies on the basis of the news, and evaluate each news item by its potential of increasing or decreasing political risks of the region or a particular country.

Notation:



Risk increase (decision or event pointing to increasing political or economic instability)



Risk decrease (decision or event pointing to decreasing political or economic instability)

Our newsletter covers the following countries:

- Bulgaria
- Czech Republic
- Macedonia (FYROM)
- Poland
- Romania
- Slovakia

Hungary is covered in a more detailed analysis of Political Capital.

For information and analysis on Hungary, please contact us at szabados@politicalcapital.hu.

Gas crisis hits Central Europe

You can Read our Risk Warning on the middle-and long-term consequences of the "Gas War" on the following link:

http://www.politicalcapital.hu/download/20090109_pc_riskanalysis_gaswar.pdf

Bulgaria

Bad credits from non-financial enterprises on the rise

Item

End-December statistics of the Bulgarian National Bank demonstrate a slight increase in the share of bad and restructured credits from overall credits for the period January – November 2008. This is a reversal of the trend since 2007 towards a fall in bad credits in all consumer, housing and commercial sectors. As the chart below demonstrates, problematic credits of both non-financial enterprises and consumers have risen as share of total credit. Opposite to the trends worldwide, bad credit in housing continues to fall. In actual figures, overall bad and restructured credit for November 2008 was 2.56% or nearly BGN 530 million out of BGN 30.2 billion commercial credit. For consumer and housing credits, respectively, the figures were 4.58% out of BGN 7.3 billion and 2.19% out of BGN 7.6 billion.

Analysis and forecast

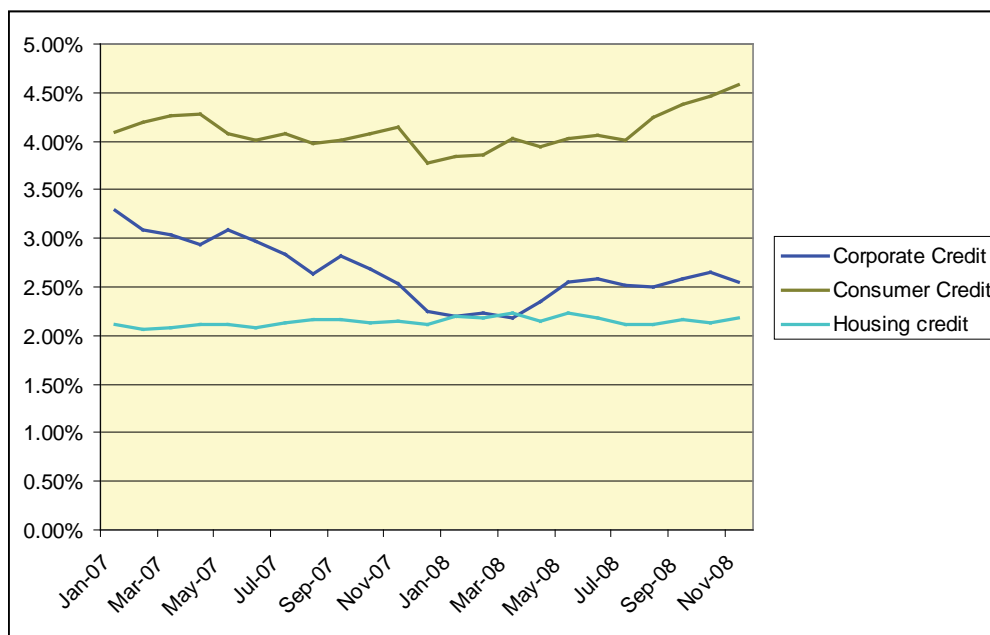


The dynamics in bad and restructured credits are only a small cause of worry, as they are still in the parameters of the acceptable by the standards of banks in the eurozone. The change, in terms of percentage of total credit, has not been dramatic. Only consumer credits exceed their level of the beginning of 2007, a period when there was no evidence of global or local financial turmoil. It is, therefore, not yet an indication of a substantial number of borrowers who are unable to service their bank loans.

The pressure on households and companies paying interest rates will continue throughout 2009. It will come from limited ability for credit refinancing, streaming from banks' reluctance to give out loans as well as increasing interest rates. Additionally, data from the National Statistics Institute has been demonstrating a slowdown in salary growth, which will make covering interest rates more difficult in the household segment. Non-financial companies, open to influence from external markets through export decrease as well as fall in internal consumption, will also have a difficult year meeting their loan expenses.

At the same time, inflation will likely fall below the interest rates, which will discourage consumers from taking credits. This trend may additionally limit the growth of consumer credits, and respectively the potential increase in bad credits.

Bad and restructured credits



Source: Bulgarian National Bank

Czech Republic

GDP-growth seems slower, budget deficit higher than expected

Item

The Czech National Bank (CNB) admits there could be a greater economic slowdown next year than previously forecast. The most recent prognosis of the CNB estimated a growth of 2.9 percent; now it says Czech GDP may only grow by 0.5 percent in 2009. According to the latest data released, the industrial production in November has fallen by 17,4% y-o-y, while only 8,9% decrease was expected.

Czech Finance Minister Miroslav Kalousek in December said that the growth of the Czech GDP in 2009 will not drop below two percent. He did not expect the unemployment rate to rise by more than one percent next year but that the growth of salaries might be slower.

According to Deputy Finance Minister Eduard Janota, Czech state budget deficit should not exceed 60 billion crowns next year as long as the economic growth reaches 2 to 2.5 percent.

Analysis and forecast



The government cannot avoid facing the effects of 2009's slower economy caused by the global downturn which is sharper than it was expected.

Most economists assume that any growth in 2009 will be a success. The most recent forecast of the CNB can be regarded as optimistic, since the Czech economy depends on the Western European development which is already struck by recession.

The budget that is based on a highly overestimated growth plan is very likely to produce a much higher deficit in 2009 than planned. Prague can be forced to make a general review on the budget, if it becomes clear that the much slower economy is incapable of providing the incomes the budget demands. This is a real threat although the Czech state deficit in 2008 was just below 20 billion crowns (1.2 percent of GDP), the lowest in the past eleven years.

Furthermore, the unemployment rose faster than expected in December 2008 (6 percent from 5.3 percent a month earlier), which makes clear that the government was mistaken when planning the budget.

Ambivalent EU-presidency kick-off

Item

Czech Prime Minister Mirek Topolánek and Deputy Prime Minister for European Affairs Alexander Vondra presented the priorities and programme of the Czech EU presidency. In addition to the crises which have recently emerged in the Middle East and over gas supplies from Russia, the country has longer-term goals which have been dubbed the "three E"-s: economy, energy and external relations. Prime Minister Topolánek said it was now vitally important to minimize the impact of the economic crisis on the European market and work on a recovery plan for the economy. The Czech Republic also wants to open a debate on nuclear safety.

The Czech Senate has postponed debating ratification of the EU's Lisbon treaty until the middle of February. A proposal was submitted by Senators from the Civic Democrats and approved by the upper house's foreign affairs committee on Wednesday. The Czech Republic's lower house, the Chamber of Deputies, is due to begin debating Lisbon in a session beginning on February 3, with that issue expected to be linked to a vote on a planned US radar base in central Bohemia. The Senate has already given its approval for the building of the US base, which would be part of a global missile defence shield.

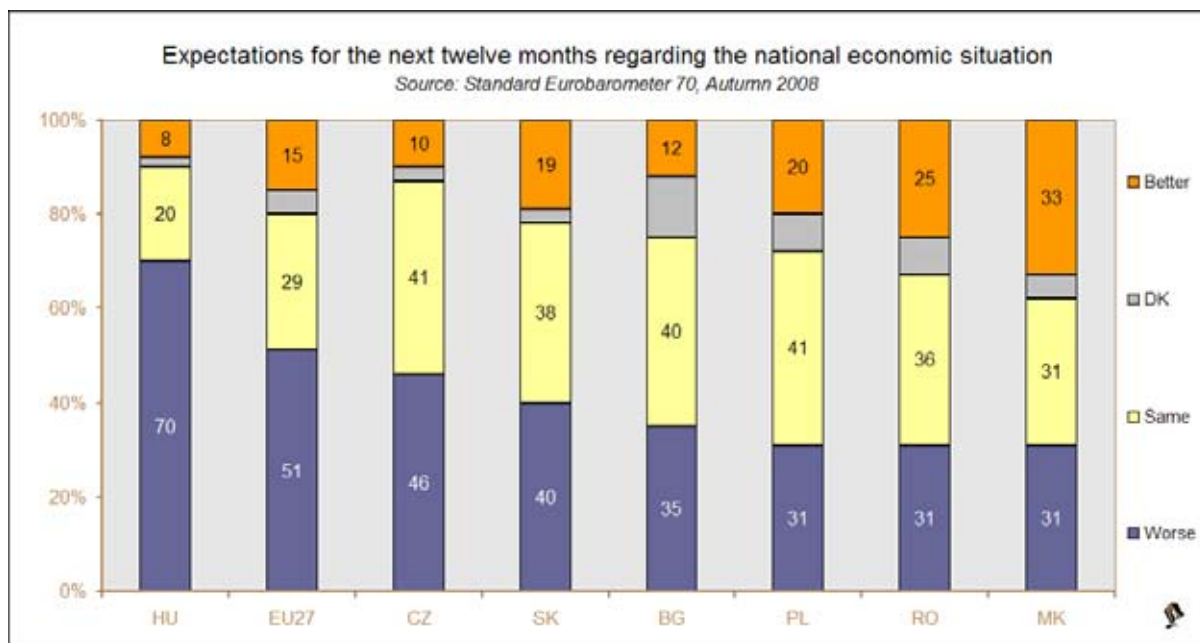
Analysis and forecast



The Czech presidency started in a very complicated international political atmosphere, which was more difficult to handle after President Vaclav Klaus branded French President Nicolas Sarkozy as "harmful to the European Union and the whole of Europe". The Foreign Minister Karel Schwarzenberg refused to comment on the president's remarks, but he appreciated Mr Sarkozy's role during the outgoing French EU presidency.

The popular euro-sceptic president (and his conflict with the PM) is the main risk factor in the success of the EU-presidency; furthermore, the coalition seems fragile too. The first few days of the presidency seems ambivalent: the Czech PM and the French president articulated contradictory statements when referring to the Gaza conflict, only few days later could get his act together. On the other hand, the PM succeeded in mediating between the negotiating partners of the gas conflict.

The slip-ups can be embarrassing for the country when building the EU-leader image. The government probably will urge the Lisbon Treaty's ratification throughout the presidency.



Government reshuffle can strengthen the PM

Item

PM Mirek Topolanek will replace four ministers in a planned cabinet reshuffle. The replacement will involve Health Care Minister Tomas Julinek and Transport Minister Ales Rebicek, both from the senior coalition Civic Democrats; Minister for Human Rights and Minorities Dzamil Stehlikova, nominated by the Green Party, and Christian Democrat leader Jiri Cunek, who announced his resignation as deputy PM earlier.

While the Prime Minister has not yet revealed who will replace the two Civic Democratic ministers, the Christian Democrat leadership has proposed that the deputy premiership should be assumed by the current Defence Minister Vlasta Parkanova and Cyril Svoboda should become the new regional development minister. Rock musician Michael Kocab is expected to replace Ms Stehlikova as the minister for human rights and minorities.

The new ministers would take office January 23.

Analysis and forecast



The reshuffle was expected since the governing coalition lost heavily in regional and Senate elections last year.

General Czech elections are scheduled for 2010, but Topolanek is under pressure from the opposition to call early elections (the government survived a no-confidence vote after the autumn elections). Topolanek gained time with the EU-presidency (no election is expected before the end of the rotating session), and aims to stabilize his position by the reshuffle: e. g. the highly unpopular Health Care Minister is likely to be replaced by a less confrontational, neutral person. The EU-presidency and the position of the government can mutually strengthen each other.

Macedonia (FYROM)

Macedonia: S&P Puts Negative Outlook on Currency Ratings

Item

Macedonia's consolidated budget for the first 11 months of the year showed a surplus of MKD 7.672 billion (EUR 126.3 million), 29% down from a year earlier, Finance Ministry data showed on January 5. Budget revenues amounted to MKD 124.7 billion through November, while spending totaled MKD 117 billion, the ministry said. The government projected a budget deficit of MKD 5.67 billion for 2008, equal to 1.5% of its planned gross domestic product. The Macedonian parliament approved the 2009 budget after a three-day long debate between the ruling coalition and the opposition. The budget for 2009 sees projected deficit of 2.8% of GDP or over MKD 11.5 billion.

Analysis and forecast



Fiscal expansion looks risky at this point for almost every CEE country given the drastic shift in risk aversion among investors due to the large scale of external vulnerabilities in the region. Although the government anti-crisis plan contains some positive measures like the temporary tax exemption for non-redistributed corporate profits, much of the increased expenditure in 2009 will be concentrated on social transfers and salaries. The loosening of the fiscal stance will probably lead to forthcoming rating downgrades. Current account deficit for 2009 should be about 13% of GDP, app. 2% higher than official projections.

	Jan-Nov'08 (reported)	Jan-Nov'07 (reported)	2008 (government projection)	2009 (government projection)
Total revenue	124,689	109,258	144,706	153,215
Tax revenue	71,116	64,427	81,049	88,594
Non-tax revenue	16,956	13,010	22,293	21,105
Total spending	117,017	98,447	150,371	164,799
Salaries	18,854	21,744	22,979	25,030
Social transfers	51,894	46,320	57,717	63,016
Balance	7,672	10,811	-5,565	-11,584

Source: National Bank of the Republic of Macedonia

Macedonia: The Macedonian Energy Regulatory Commission could suspend the licence of EVN - Macedonia

Item

A conflict between the Macedonian government and the electricity distributing company EVN – Macedonia exacerbated in the first days of 2009. The government accused EVN that the service provided by the company is unsatisfactory and the electricity network maintained by it suffers from defects causing frequent shutdowns. On January 5th the Macedonian Energy Regulatory Commission (ERC) announced that it will reconsider the reasons for the flaws within the electricity carrier company EVN. ERC has issued a request to EVN asking for a full report on all the power outages from October 10th to December 31st 2008. After the report is provided, the commission will evaluate whether it is reliable. If ERC ascertains that the report is unreliable, it will start a procedure of suspending the license of EVN for the distribution of electricity in FYROM.

Analysis and forecast



The tension between the Macedonian government and the Austrian-owned company EVN-Macedonia over the last few months has been rising. According to state officials, the formal reason for the confrontation is the insufficient investment in new equipment in areas where such has been necessary for providing quality electricity supply. 2009 started with a sharp statement by the PM Nikola Gruevski, who declared that he is very disappointed by EVN- Macedonia. He described EVN as the most problematic foreign investor in FYROM and a „model company that should not be allowed in Macedonia.” This tough language by the PM himself could be explained as a populist move aiming to calm down the rising social discontent triggered by the recent electricity outages which left a thousand families without electricity for hours or even days. The government is trying to shift all responsibility to the private company.

However, we expect that such behaviour of the Macedonian authorities could impair the image of the country in the eyes of foreign investors. Moreover, the conflict has already taken international dimensions since the Austrian ambassador in Skopje has declared that the government constitutes to create obstacles for big investments by Austrian companies in FYROM.

Poland

World Bank loan for Poland

Item

On the 22nd December, the World Bank approved a EUR 975 million loan for Poland, "in support of the government's fiscal reform and consolidation plans and broader economic reform program", the official statement said. The program, signed the day after, is called Public Finance Management, Employment, and Private Sector Development Programmatic Policy Loan.

The goals set by the parties are the following: [the loan] "will support the government's plans to enhance the quality and efficiency of public finances, increase the supply of relevant and skilled labor, and strengthen the business environment". Other sources mentioned also the partial privatization of the health care system.

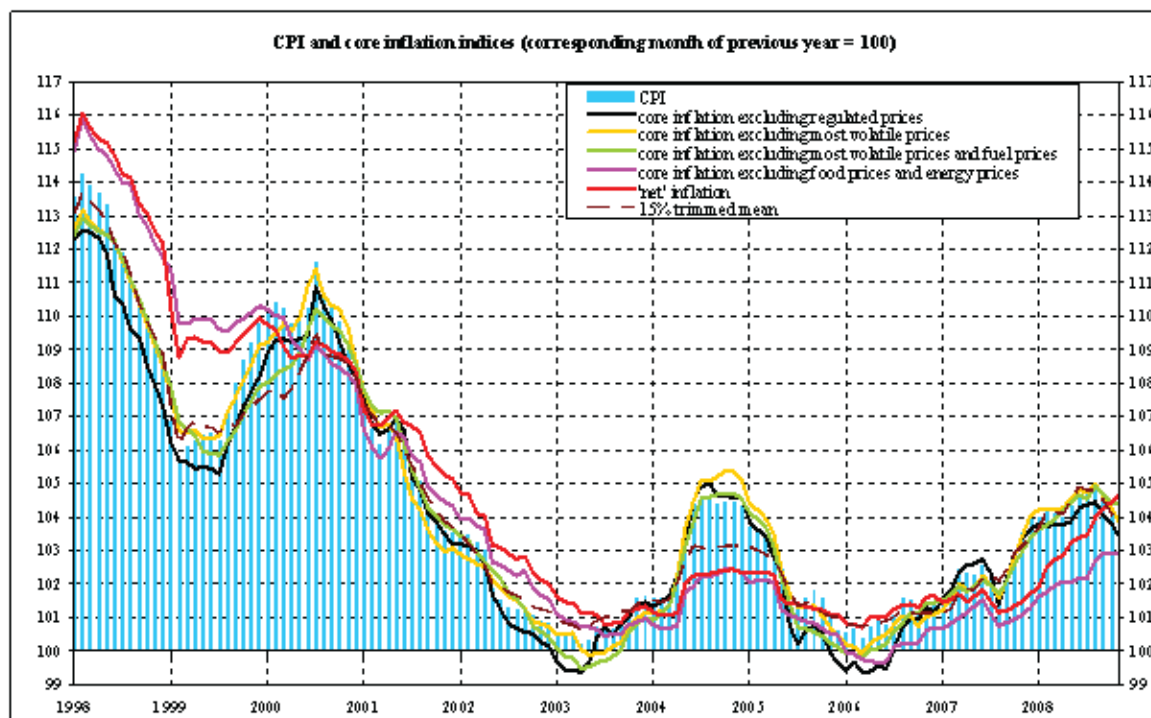
Officially, the World Bank loan is not related to the toughening financial crisis, its preparation began during the summer of 2008.

Analysis and forecast



During the period of deepening problems, the loan may ease deteriorating real economic conditions. For instance, it may be of help when it comes to labor, an ailing economic factor in Poland: the Polish unemployment rate climbed to 9.1 percent in November. Due to export possibility losses and other real economic effects of the financial turmoil, Polish companies are also forced to effectuate cut-backs. Meanwhile, migrant workers continue also to return from abroad (mainly from the UK). However, in the private sector, the number of employees rose in November by 3.1 percent.

At the same time, as unemployment rises, inflation slows, in consort with the basic economic correlation (the CPI was 3.7 percent y/y in November). Dariusz Filar, a monetary policy maker said that Polish inflation might slow below 3.5 percent in December, which would mean that it may reach the central bank's target (1.5-3.5 percent). The central bank has to balance between two concerns, the depreciation of the national currency (zloty) and the slow economic growth. Last time, the latter concern was stronger as the CB cut rates by 75 basis points.



Foreign policy in focus of 2009 expectations

Item

At the end of the year, foreign minister Radek Sikorski presented Poland's top foreign policy priorities for 2009. The minister outlined that the adoption (ratification) of the Lisbon Treaty does not figure among these top goals. Meanwhile, Sikorski said that Poland did not expect the incoming Obama administration to quickly decide on the fate of the anti-missile shield deal.

Ten days before Sikorski's statement, the president of the Council, Nicolas Sarkozy said squarely that Lech Kaczyński must sign the Lisbon Treaty (he refuses to do so by saying that he will sign it only after the Irish ratification). However, the French president was very eager, saying that being a Union member brings along not only rights, but responsibilities as well.

Radek Sikorski is also said to be a likely candidate to the position of NATO secretary general. The possible candidacy of Sikorski has a unanimous support among the Polish elite: even president Lech Kaczyński is in favor of his nomination.

Analysis
and
forecast

The ratification of the Lisbon Treaty may become once again a matter of credibility and commitment for Poland, as the French presidency and Ireland managed to reach a compromise in point of the ratification process. This compromise will probably lead to a new referendum and to the Irish ratification of the treaty. Thus Lech Kaczyński and Poland may isolate itself from the European partners.

Despite the fact that the president and Sikorski have several foreign policy debates, the foreign minister's possible NATO candidacy could reach a great support in Poland due to the fact that ideologically he is not that far from the opposition: Sikorski was a member of the former Jaroslaw Kaczyński cabinet (but dismissed because of his conflicts with the PM).

Sikorski has declined to comment on speculations; he only said that "it is high time that a politician from Eastern Europe filled the post of NATO's secretary general" and mentioned that a possible candidacy would be good for the country in itself. Incumbent SG Jaap de Hoop Scheffer is expected to leave office in July 2009, his successor will be nominated by member states.

Party support in Poland

Party	Support
Civic Platform (PO)	52%
Law and Justice Party (PiS)	27%
Democratic Left Alliance (SLD)	7%
Peasant's Party (PSL)	4%

Source: PBS DGA through Angus Reid Global Monitor

Romania

The new government took office in Romania, but tension grows

Item

It took three weeks to form the new government in Romania. The new PM, Emil Boc, leader of a grand coalition, sworn on the 22nd December.

The grand coalition formed by the PD-L and the PSD is not a honeymoon for either of the parties, and there is no period of grace for them. The source of the conflicts is the fact that the PD-L had to face the PSD program which contained several social measures that seems to be impossible to implement, while the PSD itself remains divided over the issue of entering the government.

The PD-L, possessing key economic portfolios in the cabinet, is much more confident in its new role of government party than the PSD is (see the prompt dismissal of the PSD-linked interior minister for example). Leading and influential PSD politicians raise the question again and again why the party needed to enter the government.

According to the press, the division is between those who wanted to profit from the party's governing position and those who would have preferred to stay in opposition (in order to preserve the left-wing character of the PSD). Former president Ion Iliescu and former PM Adrian Nastase both belong to the latter group.

Indeed, it will not be easy for the PSD to preserve its left-wing character while being in the government, as the Boc cabinet had to launch its action by announcing several austerity measures (see below).

Analysis and forecast



Emil Boc was not the first choice of the president (his first nominee, Theodor Stolojan stepped down without giving any explanation).

If PSD politicians do not cease talking about the need for an extraordinary congress, tensions over the coalition might grow further.

2009 is charged with elections, which also can lead to raising conflicts between the coalition partners. Romanians, as all EU member states, elect their deputies to the European Parliament this summer. The presidential election is also scheduled for 2009, while the two biggest parties, susceptible of presenting severe candidates, are in the same coalition.

Besides the prompt decisions needed in order to limit the deficit, there is a huge distance between the programmes of the two parties, which can be an obstacle for the rapid policy measures. The two parties are also differing on the institutional question, the PD-L (Băsescu's party) favoring a presidential regime, while the PSD prefers a parliamentary system.

Support of Romanian parties on the elections

	Percentage of votes for the Chamber of Deputies	Number of seats in Chamber of Deputies	Percentage of votes for the Senate	Number of seats in Senate
Social Democratic Party + Conservative Party (PSD+PC)	33.09 %	114	34.16 %	49
Liberal Democratic Party (PD-L)	32.36 %	115	33.57 %	51
National Liberal Party (PNL)	18.57 %	65	18.74 %	28
Democratic Union of Hungarians in Romania (UDMR)	6.17 %	22	6.39 %	9

Source: Biroul Electoral Central, Romania

Austerity measures announced by the Boc government

Item

The new Romanian PM announced before swearing in that the crisis was not an excuse for not carrying out reforms, and claimed that he intended to cut public spending by 20 percent. The subject was in focus of the end of the year because the new government was straightaway forced to acknowledge that the 2008 deficit would be well beyond the initially targeted level.

The Boc government has already announced some austerity measures in order to cut spending.

The government will limit maternity subsidies to 85% of the previous income of the mother, and will not permit anymore the practice where a pensioner could keep on being a public employee at a time. The government will also limit the number of executives to 12% of the total number of the public servant personnel.

12 national roads will not be constructed according to the government, most of them on the territory of Transylvania. The PNL and the UDMR raised voices against the latter decisions.

The new government and especially president Băsescu tried to satisfy Hungarian minority politicians when he invited former senator Péter Eckstein-Kovács to join the presidential team as an advisor in minority and ethnic affairs.

Analysis and forecast



These austerity measures are also important subjects of tension between the two coalition parties.

The 2009 budget is not ready as the previous government withdrew it before stepping down. However, the new government's margin of action is limited, because in September, as part of the electoral campaign, the Parliament adopted several laws, for instance wage hikes, requiring outstanding resources. But it is evident that there are no resources for these measures.

Moreover, these laws were passed predominantly by the actual government parties so they will have to choose between two harmful solutions: to withdraw the decisions or apply them. The first would cause a serious political damage to both parties, while the second would deteriorate Romania's economic situation. As in the current situation rebuilding the international confidence in Romania is the primary political goal and the country is mentioned as the next candidate for an IMF loan, implementing the campaign promises seems very unlikely or they must be counterbalanced by serious austerity measures .

The government parties, which claim that the wage hikes will be executed, have to face a serious pressure as some public workers already threaten to return to strike if the decision were not implemented.

Slovakia

Industrial production decline endangers economy

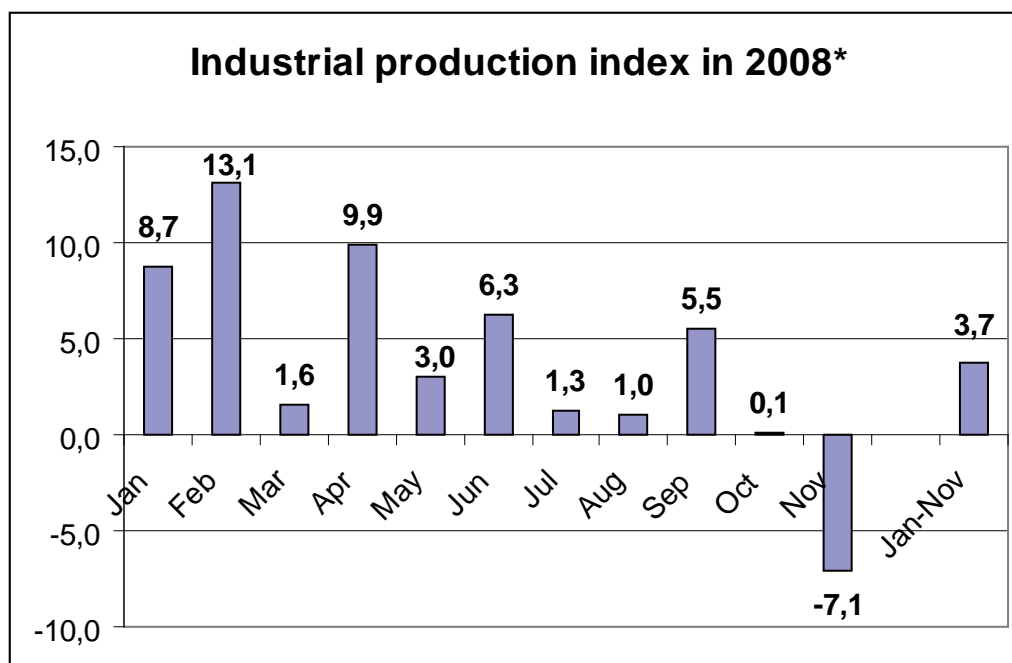
Item

Industrial production plunged throughout Europe in November 2008 as the global recession deepened. November was the first month when the industrial production declined even in Slovakia: after increasing for the whole year, the main motor of Europe's fastest growing economy fell back by 7.1 percent. Companies scale back production after the global financial crisis pushed, so do the three biggest automotive companies, the Volkswagen, the Peugeot-Citroen and the KIA Motors, too.

Analysis and forecast



The production of automobiles declined by 16.4 percent in November. Since the global recession is about to drag, further decrease in car production is expected. The decline will have a negative effect also on the industry's suppliers and further increase in unemployment rate is likely (in November the jobless rate reached 7.8%, the highest data since February). Furthermore, the other leading industry, - electricity is about to fall into recession: in October there was a 21 percent increase which slowed down to 2.4 in November. However, the fall in industrial production is not extraordinary in Europe, and is relatively low compared with the countries of the region – in the Czech Republic, for example, the y-o-y decline in November was above 17 percent.



**comparison with the same period of the previous year - adjusted from the influence of number of working days; Source: Statistical Office of Slovakia*

Re-launch of Jaslovské Bohunice reactor postponed

Item

The decision to re-launch one of the V1 reactor blocks at the Jaslovské Bohunice nuclear power plant has been postponed, PM Robert Fico announced.

"Some extraordinary measures were taken last night, which means we are able to maintain stability of the electricity system for several more days," Fico said at a news conference.

"But, at the same time, I have to say the possibility of restarting [the nuclear unit] is still very relevant," he said.

The government had announced on January 10 that it was planning to resume operation of a Jaslovské Bohunice V1 reactor block because of electricity supply problems which it said were caused by disruption of the natural gas supply from Russia.

The European Commission warned Slovakia not to reopen the plant Tuesday, saying the move would prompt legal action from the EU's executive arm.

In Vienna, activists from the Austrian Green Party, Greenpeace and Global 2000 organization protested the Bohunice station reopening in front of the Slovakian Embassy on Tuesday.

Analysis and forecast



Slovakia delayed (but not cancelled) the decision on restarting the nuclear reactor, a move that would put it on a collision course with the European Union. The government eagerly works on the solution, but the room for manoeuvre is quite narrow: if Ukraine keeps being incapable to transmit gas to Slovakia, the country can be forced to re-launch the reactor despite the fact that Slovakia reluctantly shut it down at the end of last year, meeting an obligation it made ahead of its 2004 EU entry. Hungary cannot transmit any gas to Slovakia, lacking pipelines between the countries, but there are negotiations between the two PMs about lending a hand in electricity supply. Since Slovakia is among the countries hardest hit by the cutoff of gas, there is a chance that the country cannot avoid the re-launch.

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